



United States
Department of
Agriculture

Risk
Management
Agency

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

INFORMATIONAL MEMORANDUM: IS-07-001

TO: All Reinsured Companies
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: William J. Murphy /s/ *William J. Murphy*
Deputy Administrator
for Insurance Services

2/15/2007

SUBJECT: 2007 Adjusted Gross Revenue (AGR) and Adjusted Gross Revenue-Lite (AGR-Lite) Documentation

BACKGROUND:

The Office of the Inspector General for Audit (OIG) recently examined the AGR program in its audit 05601-04-SF, Adjusted Gross Revenue Program, and determined that a significant number of policies examined were issued to ineligible producers or indemnities were paid on unsupported loss claims. These unsupported loss claims were based on unacceptable documentation. The OIG has recommended in its draft report the Risk Management Agency (RMA) advise approved insurance providers (AIPs) of the unacceptable documents that have been used and to clarify what documents are acceptable for substantiating AGR and AGR-Lite policies and claims. For purposes of this Informational Memorandum, reference to AGR also applies to AGR-Lite as applicable, unless either is explicitly cited.

ACTION:

In follow up to the OIG audit findings the following highlight some of the most significant areas in which the audit identified where AIPs can be more diligent in verification of AGR and AGR-Lite policies and claims. The AGR Standards Handbook also applies to AGR-Lite unless the AGR-Lite Policy, Standards Handbook, Special Provisions or Underwriting Rules state otherwise.

To obtain coverage, a person must meet the eligibility requirements contained in the AGR Policy, AGR Standards Handbook and Special Provisions.

At the time of sale, agents are responsible for reviewing Farm Reports for completeness, accuracy and obtaining verifiable records and documentation required for program participation and forwarding this information to the AIP (AGR Standards Handbook Section 7C).



The Risk Management Agency Administers
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

An Equal Opportunity Employer

Upon receiving the AGR information, AIPs must perform an underwriting review that includes verifying documents for completeness and accurateness, and comparing the producer's reported allowable income and expenses to supporting records to ensure that all entries have been made correctly (AGR Standards Handbook Section 7B).

AGR requires insurers to obtain a complete and accurate copy of the insured's Federal Schedule F, or, for taxpayers not required to file a Schedule F, a Substitute Schedule F (an example is provided in Exhibit 2 of the AGR Standards Handbook). The Substitute Schedule F must reconcile to the primary tax form (e.g., Form 1065, U.S. Return of Partnership Income) using secondary supporting records as explained in the AGR Standards Handbook, section 16. AGR-Lite requires a copy of the AGR-Lite Histories Calculation Worksheet for all policies.

The AGR Standards Handbook provides additional guidance in: (1) Exhibit 8 for calculating allowable income, (2) Exhibit 7 for calculating allowable expenses, and, (3) Exhibit 9 for converting cash basis Schedule Fs to an accrual basis as required for claims. In addition, Inventory and Accounts Receivable Reports must also be supported by verifiable records.

If a claim is filed, the AIP must make sure that all documents required to support the claim are present. Quality control reviews should also include verification that supporting records are complete (AGR Standards Handbook Section 7B(10)). For AGR-Lite policies with a loss, an Actual Commodity Report is required and the claim is settled using the same verifiable documentation and procedures as AGR.

Claims must also be supported by verifiable records which can be reconciled to the amounts reported on the Schedule F for the insurance year used to calculate the claim. A revised definition of verifiable records has been added to the 2007 policies, as follows:

Verifiable records - Written records developed contemporaneously with the event recorded (such as harvested production, sale of an agricultural commodity, etc.), provided from a disinterested third party (such as records from a warehouse, processor, packer, broker, etc.) or by measurement of farm stored agricultural commodities. If you sell directly to consumers (direct market), written records developed contemporaneously with the sale and used to determine taxes paid on the farm tax forms must be provided. If you process or pack your insured commodities, you must provide final settlement sheets showing disposition of the insured agricultural commodities and marketing records reconcilable with income reported for tax purposes for the insured entity.

DISPOSAL DATE:

This Informational Memorandum is for the purpose of transmitting/updating information and the disposal date is December 31, 2007.